THE FOLLOWING DOCUMENTS
ARE ATTACHED:
(Please do not remove)

ER 3708X 87
ER 0053X 88

SUBJECT:

Declassified and Approved For Release 2013/08/19 : CIA-RDP90G01353R000400400015-2

 CRETARIAT

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| TO: | | ACTION | INFO | DATE | INITIAL |
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Remarks

Executive Secretary

6 Jan '88

Date

3637 (10-81)

 253x

THE WHITE HOUSE

WASHINGTON

December 21, 1987

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

SUBJECT: Presidential Policy Directive -- 1988 Sugar Import Quota

Pursuant to the December 11, 1987, memorandum from the Economic Policy Council, the President has approved the following interim approach to the 1988 sugar import quota:

-- Establish a 1988 quota on raw sugar only of 750,000 tons.

-- Re-examine the possibility of placing restrictions on sugar-containing products after consultations with Canada regarding Cuban sugar imports and the signing of the Free Trade Agreement.

In addition, the Department of Agriculture will forward a new legislative proposal for reforming the sugar program that does not contain the transitional payments to farmers.

James A. Baker III

James A. Baker, III
Chairman Pro Tempore

Declassify on: OADR

CONFIDENTIAL



B-504-iv

CONFIDENTIAL ATTACHMENT

Executive Registry
88-0053X

**THE WHITE HOUSE**
**WASHINGTON**

# CABINET AFFAIRS STAFFING MEMORANDUM

**Date:** Jan 4, 1988 **Number:** 490,716 **Due By:** -----

**Subject:** Presidential Policy Directive -- 1988 Sugar Import Quota

| | Action | FYI |
|---|---|---|
| **ALL CABINET MEMBERS** | ☐ | ☐ |
| Vice President | ☐ | ☑ |
| State | ☐ | ☑ |
| Treasury | ☐ | ☑ |
| Defense | ☐ | ☑ |
| Justice | ☐ | ☑ |
| Interior | ☐ | ☐ |
| Agriculture | ☐ | ☑ |
| Commerce | ☐ | ☑ |
| Labor | ☐ | ☑ |
| HHS | ☐ | ☐ |
| HUD | ☐ | ☐ |
| Transportation | ☐ | ☑ |
| Energy | ☐ | ☑ |
| Education | ☐ | ☐ |
| Chief of Staff | ☐ | ☑ |
| OMB | ☐ | ☑ |
| UN | ☐ | ☐ |
| USTR | ☐ | ☑ |
| CEA | ☐ | ☑ |
| CIA | ☐ | ☑ |
| EPA | ☐ | ☐ |
| GSA | ☐ | ☐ |
| NASA | ☐ | ☐ |
| OPM | ☐ | ☐ |
| SBA | ☐ | ☐ |
| VA | ☐ | ☐ |

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| Powell | ☐ | ☑ |
| Cribb | ☐ | ☑ |
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| DPC | ☐ | ☑ |
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**REMARKS:** Attached is a memorandum from James A. Baker, III concerning the 1988 Sugar Import Quota.

**RETURN TO:**

☑ Nancy J. Risque
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ Associate Director
Office of Cabinet Affairs
456-2800
(Room 235, OEOB)

EXECUTIVE SECRETARIAT
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TO:

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SUSPENSE ______________
Date

Remarks

Executive Secretary

7 Dec '87
Date

3637 (10-81)

THE WHITE HOUSE

WASHINGTON

December 4, 1987

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: EUGENE J. McALLISTER EM

SUBJECT: Agenda and Papers for the December 8 Meeting

The agenda and papers for the December 8 meeting of the Economic Policy Council are attached. The meeting is scheduled for 11:00 a.m. in Room 208 of the Old Executive Office Building.

The Sugar Working Group has identified two alternative sugar quota levels for 1988. In addition, the Working Group has reviewed an alternative sugar reform proposal, which it is forwarding for Council review. A paper from the Sugar Working Group is attached.

The second agenda item will be steel pensions. Acting Secretary Whitfield has prepared a memorandum summarizing the conclusion of previous Council discussions and describing Senator Heinz's Steel Retirement Benefits Funding Act.

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B-504-ir

# ECONOMIC POLICY COUNCIL

December 8, 1987

11:00 a.m.

Room 208, Old Executive Office Building

AGENDA

1. Sugar
2. Steel Pensions

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THE WHITE HOUSE

WASHINGTON

December 4, 1987

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: THE SUGAR WORKING GROUP

SUBJECT: Import Quota on Sugar for 1988 and Change in Administration Proposed Legislation on Sugar for the Fiscal 1988 Budget

There are two separate issues concerning sugar for consideration by the Economic Policy Council: a) determination of the import quota on sugar for 1988; and b) whether to change the Administration's proposed sugar legislation in order eliminate the $1.1 billion in outlays entailed by that legislation.

A. Determination of the Import Quota on Sugar for 1988

By December 15, the Secretary of Agriculture must announce the 1988 import quota and file a notice of the determination of the quota in the Federal Register. This is a requirement under the sugar headnote authority of the Tariff Schedules of the United States. In determining the level of the quota, we must also take into account the requirement of the Food Security Act of 1985 that the sugar program be operated at no cost to the government. The no-cost mandate is met by adjusting the quota to such a level that forfeitures of sugar to the Commodity Credit Corporation are unlikely.

The Sugar Working Group met on December 1 and identified two basic options in determining the quota. Both options meet the requirements of the sugar headnote authority and the Food Security Act of 1985. Neither option, however, addresses the long-term problems caused by existing sugar legislation.

OPTION 1

MAINTAIN THE QUOTA AT 1 MILLION TONS AND TAKE SECTION 22 ACTION TO RESTRICT IMPORTS OF 10 TYPES OF SUGAR-CONTAINING PRODUCTS.

Under this option, we would be able to maintain the import quota at the current level of 1 million tons and meet the no-cost mandate of the Food Security Act of 1985. This would be

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accomplished by concurrently taking a section 22 action to restrict imports of 10 types of sugar-containing products. Imports of these products have increased dramatically (Attachments A, B, and C).

Because some sugar-containing products contain milk ingredients, the volume of sugar-containing imports is also circumventing unrelated quotas on imports of whole dry milk. For example, in 1986 imports of the sugar-containing product chocolate block contained an equivalent of 20 million pounds of whole dry milk; for 1987, USDA estimates that imports of chocolate block will represent the equivalent of 30 million pounds of whole dry milk. Because the U.S. import quota on whole dry milk is only 7,000 pounds, this situation has aroused the U.S. dairy industry and Congress. Virtually all U.S. imports of chocolate block originate in Canada.

For the 10 sugar-containing products, about 50 percent of the import volume comes from Canada and 25 percent from the European Community. Thus, an action to restrict imports of these products effectively redistributes the benefits of higher price U.S. sugar away from developed countries and toward developing sugar exporting countries. This would maintain sugar exporters' foreign exchange earnings at the current year level and thereby help maintain economic and political stability in those countries.

Such an action is supported by the major participants in the U.S. sugar market: sugar exporting countries, cane sugar refiners, sugar traders, sugar users, and sweetener producers. Without an action of this nature we will face increased pressure from the domestic industry and could face legal action by the industry against the Administration for failing to control imports of sugar-containing products.

Without this action, exporting countries face further severe short term consequences for their sugar industries. In the best of worlds, the short term consequences could be addressed through corrective legislation. However, the political reality is that our chances of changing existing legislation are almost nil for the near future. This option thus constitutes a short-term remedy for these countries. The advantages and disadvantages of this option are as follows:

Advantages

- would maintain exporting countries' 1988 foreign exchange earnings from sugar exports at the current level, and thus help maintain their political and economic stability;

- is supported by most exporting countries and most of the domestic industry.

Disadvantages

- would be untimely in view of the impact on Canada and our FTA negotiations with Canada;

- would expose the United States to accusations of violating the Punta del Este agricultural stand-still pledge.

- would terminate or curtail highly profitable sugar-containing product manufacturing operations of U.S. and foreign companies in overseas locations; and

- would raise domestic prices of sugar-containing products to consumers and adversely affect domestic importers and distributors of these products.

OPTION 2

REDUCE THE QUOTA TO 750,000 TONS AND MITIGATE THE EFFECTS OF THE REDUCTION THROUGH SECTION 416 COMMODITY DONATIONS AS MUCH AS POSSIBLE.

Under this option, the quota would be reduced by 25 percent to 750,000 tons and the effects of the reduction would once again be partially mitigated through section 416 commodity donations to certain sugar-exporting countries. The value of the donated commodities would be a maximum of $70 million, compared to the commodity value in 1987 of $200 million.

This option represents a continuation of the policy we have followed over the past two years, namely, reduce the quota and provide commodity donations equivalent to the value of the reduction. It would further exacerbate the problems faced by developing sugar-exporting countries and strain economic and political stability in these countries. Section 416 has limited usefulness as a mechanism for mitigating the effects of quota reduction, in particular since wheat and dairy products may not be available for the program this year.

Finally, it should be noted that a requirement of the sugar headnote authority is that it must be determined that the level of the sugar import quota gives "due consideration" to the interests of materially affected contracting parties to the General Agreement on Tariffs and Trade (GATT). It could be questioned that continued reductions in the quota in the face of rapidly increasing imports of sugar in sugar-containing products from countries such as Canada and the European Community is giving such consideration to all affected GATT contracting parties. The advantages and disadvantages of this option are as follows:

Advantages

- o Mitigates some of the effects of the reduction in the quota;
- o would not extend trade restrictions related to sugar outside of the current regime of such restrictions; and
- o avoids impact on Canada and the FTA.

Disadvantages

- o would further damage the economies of important sugar-exporting countries, particularly those in Central America and the Philippines.

B. Change the Administration's Proposed Sugar Legislation

The Office of Management and Budget has proposed a change in the Administration's proposed sugar legislation, "The Sugar Program Improvements Act". The change would eliminate the $1.1 billion in transition payments entailed by the current proposal and would reduce the loan rate by 1.5 cent a pound per year to no lower than 12 cents per pound. Such annual reductions in the loan rate would eventually lead to a higher import quota on sugar. It would not, however, affect the 1988 import quota because the domestic crop has already been either planted or harvested. The first year of a 1.5 cent drop in the loan rate which actually affects domestic planting intentions would allow for a quota of perhaps 250,000 short tons higher than would otherwise be the case.

We have tried for two years to change existing domestic sugar price support legislation and have been completely unsuccessful. With the upcoming year being an election year, there is not much likelihood for a change in this legislation. Nevertheless, the OMB proposal is a positive recommendation for change which eliminates the budget impact of our current proposal. A similar proposal has been introduced in the House (Downey) and Senate (Bradley). (Attachment G)

Option: Replace our current legislative proposal with the OMB proposal.

Advantages:

- o Eliminates the proposed outlays of our current legislative proposal which are:

| FY 1989 | FY 1990 | FY 1991 | FY 1992 | Total |
|---|---|---|---|---|
| $436 | $331 | $222 | $111 | $1,100 (millions) |

- o If passed, would lead to real reform of the sugar program and the sugar quota would be increased for 1989 and subsequent years by an amount dependent upon reductions in domestic output.

Disadvantages:

- o Would be admitting failure of our current proposal; and
- o has little chance of passage anytime soon.

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ATTACHMENT A

PROJECTED IMPORTS OF SUGAR-CONTAINING PRODUCTS
(SHORT TONS)

| Description | Actual | | Projected | | |
|---|---|---|---|---|---|
| | 1982 | 1986 | 1987 | 1988 | 1989 |
| Choc Block | 2,107 | 30,437 | 47,016 | 59,945 | 76,430 |
| Conf Coatings | 957 | 5,607 | 6,711 | 7,382 | 8,120 |
| N-Choc Ret Cndy | 24,500 | 62,929 | 66,705 | 70,707 | 74,949 |
| N-Choc Blk Cndy | 20,455 | 51,488 | 54,577 | 57,852 | 61,323 |
| Flav Syrups | 1,081 | 21,947 | 33,902 | 43,225 | 55,112 |
| Edbl Molasses | 14,845 | 46,842 | 53,400 | 57,138 | 61,138 |
| Choc Ret Cndy | 13,284 | 26,464 | 28,052 | 29,735 | 31,519 |
| Choc Blk Cndy | 4,428 | 8,822 | 9,351 | 9,912 | 10,507 |
| Sugar/Gel Mixes | 3,029 | 37,795 | 76,541 | 114,812 | 172,217 |
| Cakes, Desserts | 62,553 | 138,629 | 146,947 | 155,764 | 165,109 |
| TOTAL OF ABOVE | 147,239 | 430,960 | 523,202 | 606,472 | 716,424 |
| TOTAL SUGAR | 73,620 | 215,480 | 261,601 | 303,236 | 358,212 |

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ATTACHMENT B

USDA RECOMMENDED QUOTAS ON CERTAIN SUGAR-CONTAINING PRODUCTS
(SHORT TONS)

| Description | USDA Quota | 1978-81 Average | 50% 1978-81 Average |
|---|---|---|---|
| 155.3500 (Edible Molasses) | 16,000 | 15,163 | 7,581 |
| 155.7540 (Flavored Sirups) | 7,000 | 242 | 121 |
| 156.2500 (Chocolate Block) | 6,000 | 1,560 | 780 |
| 156.4700 (Confectioners Coatings) | 2,000 | 444 | 222 |
| 157.1005 (Non Choc Candy, Retail) | 25,000 | 24,631 | 12,316 |
| 157.1010 (Non Choc Candy, Bulk) | 21,000 | 20,982 | 10,491 |
| 157.1045 (Chocolate Candy, Retail) | 11,000 | 9,845 | 4,922 |
| 157.1050 (Chocolate Candy, Bulk) | 5,000 | 4,219 | 2,110 |
| 182.2000 (Cakes, Pies, Cookies) | 55,000 | 51,956 | 25,978 |
| 182.9000 (Sugar/Gelatin Mixtures) | 10,000 | 2,412 | 1,206 |
| TOTAL OF ABOVE | 158,000 | 131,454 | 65,727 |
| TOTAL SUGAR OF ABOVE | 79,000 | 65,727 | 32,864 |

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ATTACHMENT C

CANADIAN SUGAR IMPORTS
(Country of Origin)

| | |
|---|---|
| AUSTRALIA | 630,988 short tons |
| CUBA | 237,536 |
| SOUTH AFRICA | 156,339 |
| SWAZILAND | 156,869 |
| U.S. | 133,347 |

Note: With the exception of Guyana and Jamaica, CBI countries do not supply Canada.

ATTACHMENT D

COUNTRY SUGAR IMPORT QUOTA ALLOCATIONS, VARIOUS SCENARIOS
(in short tons, raw value)

| | Current Year Jan-Dec 1987 | Next Year Jan-Dec 1988 With Sec 22 | Next Year Jan-Dec 1988 Without Sec 22 |
|---|---|---|---|
| Argentina | 39,130 | 39,990 | 30,100 |
| Australia | 75,530 | 77,190 | 58,100 |
| Barbados | 7,500 | 7,500 | 5,770 |
| Belize | 10,010 | 10,230 | 7,700 |
| Bolivia | 7,500 | 7,500 | 5,770 |
| Brazil | 131,950 | 134,850 | 101,500 |
| Canada | 10,010 | 10,230 | 7,700 |
| Colombia | 21,840 | 22,320 | 16,800 |
| Congo | 7,500 | 7,500 | 5,770 |
| Costa Rica | 17,583 | 18,009 | 13,110 |
| Cote D'Ivoire | 7,500 | 7,500 | 5,770 |
| Dominican Republic | 160,160 | 163,680 | 123,200 |
| Ecuador | 10,010 | 10,230 | 7,700 |
| El Salvador | 26,019.8 | 26,615.4 | 19,766 |
| Fiji | 25,190 | 8,370 | 6,300 |
| Gabon | 7,500 | 7,500 | 5,770 |
| Guatemala | 43,680 | 46,640 | 33,600 |
| Guyana | 10,920 | 11,160 | 8,400 |
| Haiti | 7,500 | 7,500 | 5,770 |
| Honduras | 15,917.2 | 16,335.6 | 11,524 |
| India | 7,500 | 7,500 | 5,770 |
| Jamaica | 10,010 | 10,230 | 7,700 |
| Madagascar | 7,500 | 7,500 | 5,770 |
| Malawi | 9,100 | 9,300 | 7,000 |
| Mauritius | 10,920 | 11,160 | 8,400 |
| Mexico | 7,500 | 7,500 | 5,770 |
| Mozambique | 11,830 | 12,090 | 9,100 |
| Panama | 26,390 | 26,970 | 20,300 |
| Papua New Guinea | 7,500 | 7,500 | 5,770 |
| Paraguay | 7,500 | 7,500 | 5,770 |
| Peru | 37,310 | 38,130 | 28,700 |
| Philippines | 143,780 | 146,940 | 110,600 |
| St. Christopher-Nevis | 7,500 | 7,500 | 5,770 |
| Swaziland | 14,560 | 14,880 | 11,200 |
| Taiwan | 10,920 | 11,160 | 8,400 |
| Thailand | 12,740 | 13,020 | 9,800 |
| Trinidad-Tobago | 7,500 | 7,500 | 5,770 |
| Uruguay | 7,500 | 7,500 | 5,770 |
| Zimbabwe | 10,920 | 11,160 | 8,400 |

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ATTACHMENT E

REDUCTIONS IN SUGAR EXPORT EARNINGS IN 1988
RESULTING FROM IMPORT QUOTA OF 750,000 TONS

Amount Projected 1988 Earnings Will Be Below Previous Quota Period Earnings
Million Dollars

| | --------- Previous Quota Period ---------- | | | |
|---|---|---|---|---|
| | 1987 | 1986 | 1985 | 1984 |
| Argentina | 3.6 | 15.2 | 25.4 | 40.3 |
| Australia | 7.0 | 29.3 | 49.0 | 77.8 |
| Barbados | .7 | 2.3 | 3.8 | 6.2 |
| Belize | .9 | 3.9 | 6.5 | 10.3 |
| Bolivia | .7 | 2.8 | 4.7 | 7.4 |
| Brazil | 12.2 | 51.3 | 95.4 | 135.8 |
| Canada | .9 | 3.9 | 6.5 | 10.3 |
| Colombia | 2.0 | 8.9 | 14.2 | 22.5 |
| Congo | .7 | 2.3 | 2.0 | 4.4 |
| Costa Rica | 1.8 | 7.6 | 12.7 | 19.7 |
| Cote D'Ivoire | .7 | 2.3 | 2.0 | 4.4 |
| Dominican Republic | 14.9 | 62.2 | 104.0 | 164.9 |
| Ecuador | .9 | 3.9 | 6.5 | 10.3 |
| El Salvador | 2.5 | 10.6 | 17.7 | 27.8 |
| Fiji | 7.6 | 2.3 | 3.8 | 6.2 |
| Gabon | .7 | 2.3 | 2.0 | --- |
| Guatemala | 4.0 | 17.0 | 28.4 | 45.0 |
| Guyana | 1.0 | 4.2 | 7.1 | 11.2 |
| Haiti | .7 | 2.3 | 2.0 | 4.4 |
| Honduras | 1.8 | 7.5 | 12.5 | 19.2 |
| India | .7 | 2.8 | 4.7 | 7.4 |
| Jamaica | .9 | 3.9 | 6.5 | 10.3 |
| Madagascar | .7 | 2.3 | 2.0 | 4.4 |
| Malawi | .8 | 3.5 | 9.3 | 8.9 |
| Mauritius | 1.0 | 7.9 | 6.2 | 10.0 |
| Mexico | .7 | 2.3 | 2.0 | 4.4 |
| Mozambique | 1.1 | 4.6 | 7.7 | 12.2 |
| Panama | 2.4 | 10.3 | 17.1 | 27.2 |
| Papua New Guinea | .7 | 2.3 | 2.0 | --- |
| Paraguay | .7 | 2.3 | 2.0 | 4.4 |
| Peru | 3.4 | 14.5 | 24.2 | 38.4 |
| Philippines | 13.3 | 47.0 | 73.3 | 120.0 |
| St. Christopher-Nevis | .7 | 2.3 | 2.0 | 4.4 |
| Swaziland | 1.3 | 5.7 | 9.5 | 15.0 |
| Taiwan | 1.0 | 4.2 | 7.1 | 11.2 |
| Thailand | 1.2 | 5.0 | 8.3 | 13.1 |
| Trinidad-Tobago | .7 | 2.3 | 3.8 | 6.2 |
| Uruguay | .7 | 2.3 | 2.0 | 4.4 |
| Zimbabwe | 1.0 | 4.2 | 7.1 | 11.2 |

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ATTACHMENT F

## DERIVATION OF 1988 NO COST SUGAR IMPORT QUOTA
(short tons, raw value)

| | |
|---|---|
| Consumption Oct 1987 - Sep 1988: | 7,965,000 |
| Minus Production Oct 1987 - Sep 1988: | - 7,175,000 |
| Equals Oct 1987 - Sep 1988 Import Needs: | 790,000 |
| Minus Authorized Oct-Dec 1987 Imports: | - 229,000 |
| Equals Jan-Sep 1988 Import Needs: | 561,000 |
| Divided By 3 Equals Average Quarterly Import Needs, Remainder of FY 1988: | 187,000 |
| Times 4 Equals Calendar Year Import Needs: | 748,000 |

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ATTACHMENT G

## Comparison of Sugar Program Options

### 1. Current Administration Proposal.

The proposal that accompanied the FY 1988 budget would have "bought out" high cost domestic producers and thereby allowed increases in the quota levels for imported sugar:

- o The price support loan rate would be dropped immediately from 18 to 12 cents per pound.
- o Transition payments that made up this change would be available but would phase to zero over five years.
- o The cost of these transition payments would have been $1.1 billion over four years.

### 2. Revised Administration Proposal.

This proposal would maintain the no net cost nature of the current program. The price support loan rate would be reduced annually if the domestic price of raw sugar exceeeds world prices by more than a certain amount. The annual import quota would then be adjusted by an amount that is consistent with reductions in domestic production as a result of lower prices. A possible formulation would be:

- o If domestic prices were 150 percent or greater of the world price, the loan rate would be reduced 1 1/2 cents per pound per year, but no lower than 12 cents per pound.
- o The quota would be set at the level currently necessary to maintain the no net cost provision.

### 3. The Downey Bill, H.R. 3646.

This proposal would eliminate the no net cost nature of the program while gradually reducing loan rates and gradually increasing the quantities of sugar allowed to be imported under quota. Specifically:

- o The loan rate would be reduced 1 1/2 cents per pound annually until it reached 12 cents per pound for the 1991 and subsequent crops.
- o The total quota would be increased 500,000 short tons, raw value, over the 1988 level for 1989, and then increased a further 500,000 short tons annually.
- o If under these new provisions forfeitures occured, this would result in direct costs to the government. The bill specifically allows for costs to be incurred.

U.S. DEPARTMENT OF LABOR

DEPUTY SECRETARY OF LABOR
WASHINGTON, D.C.
20210

December 4, 1987

MEMORANDUM TO THE ECONOMIC POLICY COUNCIL

FROM: DENNIS E. WHITFIELD DW

SUBJECT: Heinz Steel Retirement Benefits Funding Act of 1987

This paper has been prepared to facilitate discussion of the Heinz Steel Retirement Benefits Funding Act of 1987 (S. 1811). It reviews the position on the steel/pension issue that the EPC formulated at our last meeting on the subject, summarizes the bill, and presents our assessment of the bill.

## SUMMARY OF EPC DISCUSSIONS

The EPC discussed specific options for addressing the problems of the integrated steel industry on July 3, July 28 and September 17. Options included maintaining the status quo, providing assistance tied to future capacity reductions, and providing assistance if necessary to achieve fundamental pension reforms.

The Council rejected the idea of acting to "help" the steel industry. Rather, the EPC framed the problem this way: given the steel industry problems and their implications, how can we achieve basic reforms in pension law and prevent a similar situation from happening again in another industry? Addressing the particular pension problems of the steel industry was viewed as a possibly necessary means to a larger end -- a more rational and fiscally sound pension system.

Since September Labor and Treasury have continued to aggressively pursue legislative pension reforms, supporting steel transition rules as an acceptable way to address the special pension problems of the steel industry.

## SUMMARY OF S. 1811

S. 1811 was introduced on October 22 by Senator Heinz. The bill has nine co-sponsors: Senators Metzenbaum (D-OH), Durenberger (R-MN), Riegle (D-MI), Simon (D-IL), Specter (R-PA), Sarbanes (D-MD), Inouye (D-HA), Mikulski (D-MD), and Moynihan (D-NY). There is no companion bill in the House at this time. Sponsors have tried, and failed, to attach it to pension reform legislation and the farm credit bill. Passage of S. 1811 is not likely this year.

In general terms, S. 1811 creates a Federal Authority that would enter into a complex arrangement to provide financing to integrated steel producers at below-market rates. These low interest rates would be available to steel companies because the obligations created by the new Authority would be backed by the full faith and credit of the United States government. The funds borrowed at below-market rates would be used to reduce unfunded pension obligations.

More precisely, S. 1811 would establish a Steel Retirement Benefits Authority and a Steel Retirement Benefits Investment Fund. The Authority would enter into agreements with steel companies to assume liabilities for early retirement pension benefits in return for stock warrants, equity, debt or other assets of the companies. The Authority would annually transfer to the pension plans sufficient amounts to retire the liabilities associated with "qualified" retirees in 10 years. "Qualified" retirees are those separated from service between January 1982 and the date of enactment of the bill and eligible for pension benefits under the "Rule of 70/80" or the "Rule of 65". Where pension plans are fully funded, the Authority could transfer funds to retiree health plans.

Funds to be used by the Authority would flow from the Steel Retirement Benefits Investment Fund. The Fund would use securities pledged by steel companies to raise private capital. The Fund would annually issue to the public, shares of a portfolio containing obligations issued by the Authority and steel company assets. Obligations created by the fund would be "direct obligations of the United States." The Authority's obligations would be retired by converting them to steel company equity.

The United Steelworkers of America support S. 1811. The steel industry is divided: Bethlehem, Armco and National support the bill; USX and Inland oppose it.

<u>ASSESSMENT OF S. 1811</u>

In EPC discussions, it became clear that to win Administration support, any proposal would have to meet several criteria. The Heinz bill does not meet these criteria. For example:

- o The bill would not necessarily reduce the PBGC's losses. It would have the government pay for benefits that are not guaranteed by the PBGC, and would subsidize steel companies that may never make a claim against the government.

- o It does not restrict Chapter 11 plan terminations. By infusing cash into the pension plans, it seeks to reduce the incentive or need to file Chapter 11, but does not restrict the ability of participants in the program from dumping unfunded pension liabilities on the PBGC after the program ends.

- S. 1811 does not include, nor is it predicated upon, basic pension reforms - for steel or industry at large.

- The Authority could, if "desirable and appropriate," provide assistance tied to future capacity shutdowns. The EPC decided that the government should not interfere with future capacity decisions.

- S. 1811 creates intra-industry inequities. Greater subsidies are provided to companies that are less credit-worthy because they have not funded their pension plans.

- The bill does not identify a credible financing source. If the steel securities appreciate sufficiently in value, there would be no cost to the Federal Government. Many consider this unlikely, however, and the obligations issued by the federal Authority would be direct obligations of the United States.

- No one knows how much S. 1811 will cost as the legislative language leaves many important issues unspecified. The government's exposure could exceed $6 billion -- $3.6 billion related to past shutdown costs, possibly $2 billion related to future shutdown costs, plus interest and administrative expenses.

On November 20, 1987, Deputy Secretary of Labor Whitfield testified, supported by Assistant Secretary of Treasury Sethness, on S. 1811 before the Senate Subcommittee on Labor on behalf of the Administration. The Administration strongly opposed the bill for the aforementioned reasons.